

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS,
OTHER INFORMATION,
AND SCHEDULE OF FINDINGS

JUNE 30, 2014 AND 2013

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AKRON CARE CENTER, INC.

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Brad Britton	President	Dec 2015
Bob Watson	Vice President	Dec 2015
Margaret Correia	Member	Dec 2018
Crystal Manley	Member	Dec 2018
Karen Schroeder	Member	Dec 2018
Brandon Verros	Administrator	Indefinite
Sharon Frerichs	Representative, City of Akron	Appointed by City
Sue Gabel	Secretary	Indefinite



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Akron Care Center, Inc.
Akron, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Akron Care Center, Inc., a component unit of the City of Akron, Iowa, as of June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Care Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Akron Care Center, Inc. as of June 30, 2014 and 2013, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Akron Care Center, Inc.'s basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of Akron Care Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Welliver & Company PC.
Certified Public Accountants

Onawa, Iowa
November 14, 2014

AKRON CARE CENTER, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013
ASSETS

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 631,625	\$ 383,425
Board Designated Cash	53,578	50,682
Accounts Receivable (Less Allowance for Doubtful Accounts \$34,206 and \$51,978 for 2014 and 2013)	218,026	159,701
Promises to Give (Less Allowance for Uncollectible Promises \$8,260 for both 2014 and 2013)	122,129	158,366
Due From Other Governments	-	755,558
Prepaid Expenses	6,725	14,001
	<hr/>	<hr/>
Total Current Assets	1,032,083	1,521,733
<u>NONCURRENT ASSETS</u>		
Restricted Cash - Construction - Note 6	302,125	-
Restricted Cash - USDA Reserve Funds - Note 7	34,211	-
Promises to Give	101,828	191,251
Construction in Progress - Note 8	-	406,793
Other Capital Assets, Net of Depreciation - Note 8	7,107,827	716,734
	<hr/>	<hr/>
Total Noncurrent Assets	7,545,991	1,314,778
	<hr/>	<hr/>
Total Assets	8,578,074	2,836,511

LIABILITIES

<u>CURRENT LIABILITIES</u>		
Accounts Payable	112,128	50,675
Accrued Salaries and Payroll Taxes Payable	68,353	44,597
Accrued Compensated Absences Payable - Current	10,849	8,314
Accrued Interest Payable	28,472	21,823
Current Portion of Peoples Bank Note Payable - Note 10	23,087	22,128
Current Portion of City of Akron GO Bonds - Note 11	55,000	-
Current Portion of USDA Note Payable - Note 12	48,193	-
Total Current Liabilities	<hr/> 346,082	<hr/> 147,537
<u>NONCURRENT LIABILITIES</u>		
Accrued Compensated Absences Payable - Long-Term	32,548	24,942
City of Akron Notes Payable - Long-Term - Note 9	140,000	140,000
City of Akron GO Bonds Payable - Long-Term - Note 11	1,085,000	-
USDA Note Payable - Long-Term - Note 12	3,917,950	-
Peoples Bank Note Payable - Long-Term - Note 10	238,603	262,378
Total Noncurrent Liabilities	<hr/> 5,414,101	<hr/> 427,320
	<hr/>	<hr/>
Total Liabilities	5,760,183	574,857

NET POSITION

Net Investment in Capital Assets	2,042,119	839,021
Restricted:		
USDA Reserve Funds	34,211	-
Unrestricted	741,561	1,422,633
	<hr/>	<hr/>
Total Net Position	\$ 2,817,891	\$ 2,261,654

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>OPERATING REVENUES</u>		
Patient and Resident Revenue	\$ 2,673,985	\$ 2,281,984
Meals	3,663	3,513
Vehicle Income	4,279	3,452
Social Services Reimbursement	7,434	4,288
Reimbursements	3,384	3,229
Miscellaneous Income	4,388	33,476
	<hr/>	<hr/>
Total Operating Revenues	2,697,133	2,329,942
<u>OPERATING EXPENSES</u>		
Administrative Expense	360,732	325,236
Dietary Services Expense	316,979	289,533
General Services Expense	270,833	208,297
Patient Care Services Expense	1,392,395	1,342,337
Depreciation and Amortization Expense	238,055	20,808
Interest Expense	103,947	4,500
Debt Issuance Cost	104,875	-
Apartments - Village South Expenses	17,650	27,152
Apartments - Village North Expenses	58,388	59,632
	<hr/>	<hr/>
Total Operating Expenses	2,863,854	2,277,495
<u>OPERATING INCOME (LOSS)</u>	(166,721)	52,447
<u>NON-OPERATING REVENUES/EXPENSES</u>		
Donations and Memorials	822,084	299,185
Interest Income	2,996	933
Gain on Sale of Equipment	702	-
	<hr/>	<hr/>
Total Non-Operating Revenues	825,782	300,118
Loss on Abandonment of Building & Equipment	(102,824)	-
	<hr/>	<hr/>
Changes in Net Position	556,237	352,565
Net Position at Beginning of Year	2,261,654	1,909,089
	<hr/>	<hr/>
Net Position at End of Year	<u>\$ 2,817,891</u>	<u>\$ 2,261,654</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient and Resident Services	\$ 2,615,660	\$ 2,327,923
Cash Paid to Suppliers for Goods and Services	(828,897)	(742,567)
Cash Paid to Employees for Services	(1,581,404)	(1,484,638)
Donations Received	696,425	493,852
Other Operating Revenues	23,148	47,958
	<u>924,932</u>	<u>642,528</u>
Net Cash Provided By Operating Activities		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(5,978,328)	(27,447)
Contribution (to) from the City of Akron	755,558	(712,468)
Principal Paid on Peoples Bank Note	(22,816)	(21,344)
Interest Paid	(103,947)	(12,559)
Proceeds from Sale of Equipment	7,769	-
Proceeds from Sale of City of Akron GO Bonds	1,250,000	-
Proceeds from USDA Loan	4,000,000	-
Payment of Debt Issuance Costs	(104,875)	-
Principal Payments made on USDA Loan	(33,857)	-
Principal Payments made on City of Akron GO Bonds	(110,000)	-
	<u>(340,496)</u>	<u>(773,818)</u>
Net Cash (Used) By Capital and Related Financing Activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	2,996	933
	<u>2,996</u>	<u>933</u>
Net Cash Provided By Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	587,432	(130,357)
Cash and Cash Equivalents at Beginning of Year	434,107	564,464
Cash and Cash Equivalents at End of Year	<u>\$ 1,021,539</u>	<u>\$ 434,107</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</u>		
Cash and Cash Equivalents	\$ 631,625	\$ 383,425
Board Designated Cash	53,578	50,682
Restricted Cash - Construction	302,125	-
Restricted Cash - USDA Reserve Funds	34,211	-
Total Cash and Cash Equivalents	<u>\$ 1,021,539</u>	<u>\$ 434,107</u>

(Continued)

AKRON CARE CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

(Continued)

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ (166,721)	\$ 52,447
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided By Operating Activities:		
Donations and Memorials	822,084	299,185
Interest Expense	112,581	16,064
Bad Debt Expense	291	-
Depreciation and Amortization Expense	238,055	50,080
(Increase) Decrease in Assets:		
Accounts Receivable	(58,325)	45,939
Promises to Give	(125,659)	194,667
Prepaid Expenses	7,276	(2,584)
Increase (Decrease) in Liabilities:		
Accounts Payable	61,453	(19,070)
Accrued Salaries and Payroll Taxes Payable	23,756	861
Accrued Compensated Absences Payable	10,141	4,939
Total Adjustments	<u>1,091,653</u>	<u>590,081</u>
Net Cash Provided By Operating Activities	<u>\$ 924,932</u>	<u>\$ 642,528</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

Akron Care Center, Inc. is licensed as a nursing facility with a 45 bed capacity. Substantially all of the Care Center's patients and residents are local residents. Akron Care Center, Inc. also operates two senior living apartment complexes separate from the licensed facility. For the years ended June 30, 2014 and 2013, Title XVIII and Title XIX revenue, as a percentage of total revenue, was 55% and 55%, respectively.

Akron Care Center, Inc.'s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Akron Care Center, Inc. has included all funds, organizations, agencies, boards, commissions and authorities. The Care Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Akron Care Center, Inc. to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Akron Care Center, Inc. Akron Care Center, Inc. has no component units which meet the Governmental Accounting Standards Board criteria. Akron Care Center, Inc. is a component unit of the City of Akron, Iowa.

B. Basis of Presentation

The Statement of Net Position (previously referred to as net asset) displays the Care Center's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balance for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. These assets will be released from restrictions when expended in accordance with the donors' specifications.

Unrestricted Net Position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

When an expense is incurred and both restricted and unrestricted resources are available for use, it is the Care Center's policy to apply the expense toward restricted fund balance first and then to unrestricted fund balance.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents – Akron Care Center, Inc. considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all individual patient balances.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Donated fixed assets are recorded at their estimated fair value at the time received.

Reportable capital assets are defined by Akron Care Center, Inc. as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and Improvements	\$ 3,000
Equipment and Vehicles	3,000

Capital assets of Akron Care Center, Inc. are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	10 - 50
Equipment and Vehicles	3 - 25

F. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

G. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

Note 2 – CASH AND CASH EQUIVALENTS

The Care Center's deposits in banks at June 30, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Care Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; common stock; perfected repurchased agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Custodial Credit Risk – The Care Center has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss on public funds.

Note 3 – REIMBURSEMENT AGREEMENTS WITH CONTRACTING AGENCIES

The Care Center has entered into reimbursement agreements for nursing services rendered to Medicare and Medicaid patients. The Medicare and Medicaid programs have adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

Note 4 – OPERATING LEASES

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$6,952 and \$3,634 for the years ended June 30, 2014 and 2013, respectively.

Note 5 – RELATED PARTY TRANSACTIONS

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2014 and 2013 were \$58,571 and \$48,067, respectively.

Note 6 – RESTRICTED CASH - CONSTRUCTION

This is the remainder of the USDA Loan Proceeds at June 30, 2014. These funds can be used for any remaining work to be done on building, land improvements, or approved equipment. Any remaining balance will need to be paid down on the USDA debt. Subsequent to years end the USDA approved fully funding the 10 year reserve fund of \$186,240 with the construction cash.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 7 – RESTRICTED CASH USDA RESERVE FUNDS

The USDA Loan required the Care Center to establish two separate accounts. The first account is a 10 year reserve fund with transfers of \$1,552 per month up to a maximum of \$186,240. The second account is for Funded Depreciation with transfers monthly of \$2,250 up to a maximum of \$27,000.

The following are the accounts and respective balance at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
10 Year Reserve Fund	\$ 13,963	\$ -
Funded Depreciation	<u>20,248</u>	<u>-</u>
Total USDA Reserve Funds	<u>\$ 34,211</u>	<u>\$ -</u>

The Akron Care Center was in compliance with the reserve requirements of the USDA Loan Documents at June 30, 2014.

Note 8 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Fiscal year ended June 30, 2014:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ 75,000	\$ (3000)	\$ 95,004
Construction in progress	406,793	-	(406,793)	-
Total capital assets not being depreciated	<u>429,797</u>	<u>75,000</u>	<u>(409,793)</u>	<u>95,004</u>
Capital assets being depreciated:				
Building and improvements	1,838,198	6,264,186	(996,770)	7,105,614
Equipment and furnishings	291,082	533,326	(172,592)	651,816
Total capital assets being depreciated	<u>2,129,280</u>	<u>6,797,512</u>	<u>(1,169,362)</u>	<u>7,757,430</u>
Less accumulated depreciation for:				
Building and improvements	1,178,374	39,475	(630,581)	587,268
Equipment and furnishings	257,176	11,958	(111,795)	157,339
Total accumulated depreciation	<u>1,435,550</u>	<u>51,433</u>	<u>(742,376)</u>	<u>744,607</u>
Total capital assets being depreciated, net	<u>693,730</u>	<u>6,746,079</u>	<u>(426,986)</u>	<u>7,012,823</u>
Total capital assets, net	<u>\$ 1,123,527</u>	<u>\$ 6,821,079</u>	<u>\$ (836,779)</u>	<u>\$ 7,107,827</u>

(Continued)

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 8 – CAPITAL ASSETS (Cont.)

Fiscal year Ended June 30, 2013:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	379,346	27,447	-	406,793
Total capital assets not being depreciated	<u>402,350</u>	<u>27,447</u>	<u>-</u>	<u>429,797</u>
Capital assets being depreciated:				
Building and improvements	1,838,198	-	-	1,838,198
Equipment and furnishings	291,082	-	-	291,082
Total capital assets being depreciated	<u>2,129,280</u>	<u>-</u>	<u>-</u>	<u>2,129,280</u>
Less accumulated depreciation for:				
Building and improvements	1,137,919	40,455	-	1,178,374
Equipment and furnishings	247,551	9,625	-	257,176
Total accumulated depreciation	<u>1,385,470</u>	<u>50,080</u>	<u>-</u>	<u>1,435,550</u>
Total capital assets being depreciated, net	<u>743,810</u>	<u>(50,080)</u>	<u>-</u>	<u>693,730</u>
Total capital assets, net	<u>\$ 1,146,160</u>	<u>\$ (22,633)</u>	<u>\$ -</u>	<u>\$ 1,123,527</u>

Reconciliation of Net Investment in Capital Assets:

	<u>2014</u>	<u>2013</u>
Restricted Cash - Construction	\$ 302,125	\$ -
Construction in Progress	-	406,793
Other Capital Assets, Net of Depreciation	7,107,827	716,734
Peoples Bank Note Payable	(261,690)	(284,506)
City of Akron – USDA Note Payable	(3,966,143)	-
City of Akron – GO Bond Payable	<u>(1,140,000)</u>	<u>-</u>
Net Investment in Capital Assets	<u>\$ 2,042,119</u>	<u>\$ 839,021</u>

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 9– CITY OF AKRON NOTES PAYABLE

In February 2009, Akron Care Center had a \$40,000 long-term note with a maturity date of August 2013, interest rate of 0.00% and no set payment schedule determined. In July 2011, the note was extended for 20 years. No principal or interest is due for the first 11 years of the note, and principal payments will be required at least annually beginning July 2023.

In February 2009, the City of Akron advanced to Akron Care Center, Inc. \$100,000 to cover operating expenses. The note was originally due in September 2013, an interest rate of 4.50% and no set payment schedule determined. In July 2011, the note was extended for 20 years. Only interest payments are to be made for the first 11 years. Beginning in July 2023, the Care Center will be required to make principal payments at least annually. The facility made no interest payments during the fiscal year. The following are the maturities for both the above notes over the future fiscal years ending June 30:

Year Ending June 30,	Principal Note #1	Interest @ 0.00%	Principal Note #2	Interest @ 4.50%	Total Principal	Total Interest	Total
2015	\$ -	\$ -	\$ -	\$ 4,500	\$ -	\$ 4,500	\$ 4,500
2016	-	-	-	4,500	-	4,500	4,500
2017	-	-	-	4,500	-	4,500	4,500
2018	-	-	-	4,500	-	4,500	4,500
2019	-	-	-	4,500	-	4,500	4,500
2020 - 2024	5,000	-	10,630	22,304	15,630	22,304	37,934
2025 - 2029	25,000	-	60,916	13,776	85,916	13,776	99,692
2030 - 2031	10,000	-	28,454	9,465	38,454	9,465	47,919
	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 68,045</u>	<u>\$ 140,000</u>	<u>\$ 68,045</u>	<u>\$ 208,045</u>

Note 10 – PEOPLES BANK NOTE PAYABLE

Akron Care Center, Inc. financed through Peoples Bank \$625,000 for the construction of the Village North Apartment Complex, an 8-unit senior living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122 including interest at 3.30%. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The note was refinanced on November 24, 2008 for \$375,000 which is payable in 180 equal monthly installments of \$2,823 including interest at 4.25%.

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2015	4.25%	\$ 23,087	\$ 10,792	\$ 33,879
2016	4.25%	24,072	9,807	33,879
2017	4.25%	25,145	8,734	33,879
2018	4.25%	26,220	7,659	33,879
2019	4.25%	27,356	6,523	33,879
2020 – 2024	4.25%	135,810	16,646	152,456
Total		<u>\$ 261,690</u>	<u>\$ 60,161</u>	<u>\$ 321,851</u>

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 11 – CITY OF AKRON – GO BOND PAYABLE

Akron Care Center, Inc. borrowed \$1,250,000 from the City of Akron through a GO Bond, Series 2012A in order to attain the necessary capital to qualify for the \$4,000,000 USDA Rural Development loan needed to finance the construction of their new 45-bed Akron Care Center facility, which opened in August 2013. The bond principal is payable in 19 payments, with the first payment made on June 1, 2013 and the final payment scheduled for September 1, 2031. The bonds have a principal payment ranging from \$55,000 to \$85,000 per year. The bonds interest payments occur on December 1 and June 1, beginning on December 1, 2012, with the final payment schedule for June 1, 2031. The bonds have a variable interest rate, ranging from 1.00% to 3.75%, with an average of 2.40%. The city has pledged the full faith and credit of the City of Akron behind them.

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Principal	Coupon	Interest	Total
2015	\$ 55,000	1.00%	\$ 29,643	\$ 84,643
2016	60,000	1.00%	29,092	89,092
2017	60,000	1.40%	28,493	88,493
2018	60,000	1.40%	27,652	87,652
2019	60,000	1.85%	26,813	86,813
2020 – 2024	315,000	2.29%	115,562	430,562
2025 – 2029	365,000	3.35%	70,088	435,088
2030 – 2031	165,000	3.75%	9,375	174,375
Total	<u>\$1,140,000</u>		<u>\$336,718</u>	<u>\$1,476,718</u>

Note 12 – CITY OF AKRON – USDA NOTE PAYABLE

Akron Care Center, Inc. borrowed \$4,000,000 from the City of Akron through a loan with USDA Rural Development. The loan is a 40-year loan payable in monthly payment of \$15,520, with one final payment of \$10,426.10. The payments began on October 26, 2013 and the loan matures September 26, 2053. The loan has an interest rate of 3.50%. This note is payable solely and only out of the net revenues of the Care Center.

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2015	3.50%	\$ 48,193	\$ 138,047	\$ 186,240
2016	3.50%	49,907	136,333	186,240
2017	3.50%	51,682	134,558	186,240
2018	3.50%	53,521	132,719	186,240
2019	3.50%	55,424	130,816	186,240
2020 – 2024	3.50%	308,130	623,070	931,200
2025 – 2029	3.50%	366,965	564,235	931,200
2030 – 2034	3.50%	437,034	494,166	931,200
2035 – 2039	3.50%	520,482	410,718	931,200
2040 – 2044	3.50%	619,865	311,335	931,200
2045 – 2049	3.50%	738,224	192,976	931,200
2050 – 2054	3.50%	716,716	54,190	770,906
Total		<u>\$3,966,143</u>	<u>\$3,323,163</u>	<u>\$7,289,306</u>

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 13 – LONG-TERM LIABILITIES

Long-Term liability activity for the years ended was as follows:

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 33,256	\$ 64,093	\$ 53,952	\$ 43,397	\$ 10,849
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	284,506	-	22,816	261,690	23,087
City of Akron - GO Bonds	-	1,250,000	110,000	1,140,000	55,000
USDA Note Payable	-	4,000,000	33,857	3,966,143	48,193
Long-Term Liabilities	<u>\$457,762</u>	<u>\$5,314,093</u>	<u>\$220,625</u>	<u>\$5,606,230</u>	<u>\$137,129</u>

June 30, 2013	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 28,317	\$64,143	\$59,204	\$ 33,256	\$ 8,314
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	305,850	-	21,344	284,506	22,128
Long-Term Liabilities	<u>\$474,167</u>	<u>\$64,143</u>	<u>\$80,548</u>	<u>\$457,762</u>	<u>\$30,442</u>

Note 14 – PENSION AND RETIREMENT BENEFITS

The Care Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which as established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the Care Center is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Care Center's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$120,492, \$106,709 and \$99,821, respectively, equal to their required contributions for each year.

Note 15 – RISK MANAGEMENT

The Care Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Care Center's workers' compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2014, there were no claims in excess of the minimum contributions to the claim fund.

OTHER INFORMATION

AKRON CARE CENTER, INC.

AKRON CARE CENTER, INC.
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
OTHER INFORMATION
YEAR ENDED JUNE 30, 2014

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
<u>OPERATING REVENUES</u>						
Charges for Fees, Services and Loans	\$ 2,697,133	\$ 700,229	\$ 3,397,362	\$ 2,455,587	\$ 2,455,587	\$ 941,775
<u>OPERATING EXPENSES</u>						
Business Type Expenditures and Principal Payments	2,863,854	5,900,270	8,764,124	2,628,110	2,628,110	(6,136,014)
<u>NONOPERATING (REVENUES) EXPENSES</u>	<u>825,782</u>	<u>5,128,412</u>	<u>5,954,194</u>	<u>-</u>	<u>-</u>	<u>5,954,194</u>
<u>NET CHANGE IN NET POSITION</u>	<u>659,061</u>	<u>(71,629)</u>	<u>587,432</u>	<u>(172,523)</u>	<u>(172,523)</u>	<u>759,955</u>
<u>BALANCE BEGINNING OF YEAR</u>	<u>2,261,654</u>	<u>(1,827,547)</u>	<u>434,107</u>	<u>345,895</u>	<u>345,895</u>	<u>88,212</u>
<u>BALANCE END OF YEAR</u>	<u>\$ 2,920,715</u>	<u>\$(1,899,176)</u>	<u>\$ 1,021,539</u>	<u>\$ 173,372</u>	<u>\$ 173,372</u>	<u>\$ 848,167</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
NOTES TO OTHER INFORMATION-
BUDGETARY REPORTING

JUNE 30, 2014

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the cash basis of accounting. The Akron Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total disbursements.

For the year ended June 30, 2014, the Care Center's disbursements exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual disbursements for the entire City of Akron to the total business-type activities budget.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Akron Care Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Akron Care Center, Inc. as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Akron Care Center, Inc.'s internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Akron Care Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Akron Care Center, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items II-A-14 and II-B-14 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron Care Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Care Center's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Care Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

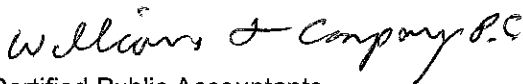
Akron Care Center, Inc.'s Response to Findings

Akron Care Center, Inc.'s responses to findings identified in our audit are described in the accompanying schedule of findings. Akron Care Center, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Akron Care Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Certified Public Accountants

Onawa, Iowa
November 14, 2014

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditors' Results

- A. An unmodified opinion was issued on the financial statements.
- B. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- C. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

- II-A-14 Financial Accounting - Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Administrator or a different accountant.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting, and payroll on a test basis.

Conclusion – Response accepted.

- II-B-14 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not adjusted in the Care Center's financial statements. Adjustments were subsequently made by the Care Center to properly include these amounts in the financial statements.

Recommendation – The Care Center should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Care Center's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Cont.)

JUNE 30, 2014

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (A) Questionable Expenses – No questionable expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (B) Official Depositories – A resolution naming official depositories has been adopted by the Care Center. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2014.
- (C) Travel Expense – No disbursements of money for travel expenses of spouses of Care Center officials or employees were noted.
- (D) Board Minutes – No transactions were found that we believe should have been approved in the Care Center's minutes but were not.
- (E) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Care Center's investment policy were noted.
- (F) Business Transactions – There were no business transactions that occurred between the Care Center and Care Center officials:
- (G) Budget – Expenditures during the year ended June 30, 2014 exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.
- (H) Publication of Salaries – In fiscal year 2014, actual gross salaries were not published as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The Care Center should publish actual gross salaries as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Response – We will seek legal counsel for further guidance on this requirement.

Conclusion – Response accepted.

- (G) USDA Loan – No violations of USDA Note resolutions were noted.